

EXHIBIT 2

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DEPARTMENT OF CORPORATIONS

OFFICE OF THE COMMISSIONER

3701 WILSHIRE BOULEVARD, SUITE 400
LOS ANGELES, CALIFORNIA 90010

IN REPLY REFER TO:

FILE NO: _____

May 6, 1994

Mr. J. Kendall Anderson
488 Boundary Oak Way
Walnut Creek, CA 94598

Dear Mr. Anderson:

As you may know, representatives of the Department of Corporations met yesterday with several members of the Board of Directors of Blue Cross of California (BCC) and officers of BCC and/or Wellpoint Health Networks (Wellpoint). As I mentioned at the meeting, since arriving at the Department in August 1993, I have been focussing a considerable amount of my time on the Department's ongoing efforts to assure that BCC satisfies the representations it made to the Department at the time of licensure and appropriately discharges its responsibilities to the public, BCC's shareholder. In view of the priority that I attach to this matter, I am glad that I had an opportunity to meet with several representatives of the Board.

To make certain that there is no misunderstanding with respect to the Department's views in this regard, I thought it was appropriate to send this letter to you and to each of the other members of the BCC Board, including those Board members who attended the May 5 meeting. As the following chronology of events indicates, the Department has made every reasonable effort to work cooperatively with BCC to address this issue.

In July 1991, BCC filed an application with the Department to become a health care service plan under the Knox-Keene Act. From the outset, the Department was concerned about the impact that the restructuring contemplated in that license application would have on BCC's ability to discharge its responsibilities as a nonprofit public benefit corporation. BCC addressed these concerns in a June 4, 1992 letter to the Department which stated that "BCC undertakes a broad range of charitable activities, including the AIM and MRMIP programs. . . ." BCC then represented that "it is anticipated that the extent of BCC's charitable activities in support of such programs will increase by virtue of the resources BCC would receive through a successful IPO. . . . BCC is expected to receive substantial cash amounts as a result of the IPO. BCC intends to devote those proceeds to programs which will assist in making available cost-effective health care."

Based upon the representations that BCC made in its license application and the Department's review of applicable law, the Department concluded that the BCC restructuring did not constitute a for-profit conversion. The Department did not, therefore, impose a charitable trust obligation upon BCC at the time it approved the application (January 7, 1993).

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In April 1993, the Department contacted BCC to inquire about the steps BCC intended to take to meet its charitable obligations. On April 30, 1993, in response to this inquiry, BCC restated "its intent, as part of the restructuring, to expand its nonprofit and charitable activities in order to make available affordable and accessible health care coverage, augment the provision of health care services to the medically underserved and support government programs." BCC further represented in the April 30, 1993 letter that a written report in this regard would be submitted to the Department by the end of May 1993.

On June 7, 1993, the Department met with BCC representatives to determine the status of that report. Following that meeting, in a June 16, 1993 letter to the Department, BCC stated that the requested report would be delivered to the Department by the end of July.

This report was ultimately delivered to the Department on September 20, 1993. Upon review of the report, the Department concluded that the report was materially deficient. Among other things, the September 20, 1993 report (i) focussed on the steps that BCC would take to satisfy the undertakings BCC had negotiated with the Legislature, not the steps that it would take to fully discharge its responsibilities as a public benefit corporation¹, and (ii) provided no historical information to determine if BCC was, in fact, going to increase its charitable activities as it had committed to do at the time of licensure.

On December 21, 1993, the Department sent BCC a deficiency letter with respect to the September 20 report and asked BCC to provide answers to nine specific requests for information. On January 24, 1994, BCC filed a response to the December 21 letter. The information contained in this response was also materially deficient and failed to address eight of the nine specific areas of requested information.

Since the January 24, 1994 report was received, I have held several meetings with representatives of BCC in an effort to work with BCC to make certain that BCC discharges its nonprofit public benefit responsibilities. Before yesterday's meeting, the most recent of these meetings was held on April 24, 1994.

¹ The September 20 report restated BCC's commitment to spend at least \$5 million to promote public benefit/charitable activities. While that commitment is consistent with BCC's negotiated undertaking with the Legislature, it represents a commitment to spend less than 0.2% of the value of BCC's Wellpoint holdings alone, ignoring the other assets at BCC's disposal. I do not believe that any shareholder (in BCC's case, the public) would be satisfied with that return on investment.

At the April 24 meeting, a preliminary proposal with respect to BCC's plans to discharge its obligations to the public was shown to the Department. While the Department did not have an opportunity to review this proposal in any depth, at that meeting I relayed my initial view of the proposal to the BCC representatives. Among other things, I noted that the proposed level of public benefit expenditures in 1994 of between \$25 and \$35 million was wide of the mark by an order of magnitude.

On April 25, I called Mr. Schaeffer to provide some additional input with respect to the Department's views concerning this preliminary proposal in advance of the April 26 BCC Board meeting. As Mr. Schaeffer was unable to return my phone call, I spoke to Mr. Geiser. During that phone conversation, I told Mr. Geiser that, in the Department's view, BCC should (i) commit to spend not less than \$100 million on charitable activities during 1994, (ii) consider contributing not less than 40% of BCC's Wellpoint holdings to a newly-formed foundation and (iii) appoint at least one state representative to the bodies that will decide the public benefit activities to be pursued utilizing the assets available to BCC and any newly-formed foundation. I also informed Mr. Geiser that the Department had begun to take the necessary steps to initiate an enforcement action against BCC with respect to this matter if the Department concluded that it was necessary to do so.

At yesterday's meeting, I restated my view that the public is BCC's shareholder and noted that, as Commissioner of Corporations, I am the representative of this shareholder and stand in the shoes of the Attorney General. I also indicated that I did not believe any shareholder would accept a return on their investment that was comparable to that proposed by BCC.

At the May 5 meeting, I also restated the Department's view that, at a minimum, BCC should agree to spend not less than \$100 million on charitable activities during 1994. While \$100 million is a substantial sum of money, this amount represents only a 2% return on the \$2.5 billion market value of BCC's financial assets alone, i.e. the Wellpoint stock². (As you know, BCC sponsored very little public benefit activity in 1993, and the minimum 1994 commitment that I believe is appropriate takes this into account.)

² As I indicated at the meeting, the value of the Wellpoint stock held by BCC probably exceeds that value of that stock based upon market quotes reported on the New York Stock Exchange. BCC's Wellpoint stock may command a control premium, and to maximize the value of that stock to its shareholder, BCC may want to consider selling its entire position in the Wellpoint stock in a negotiated transaction.

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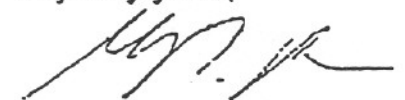
At the meeting, I also strongly encouraged BCC to consider making a substantial commitment to fund the AIM program in 1994. This program is one of the most important state government programs providing health care services to this state's medically underserved population. A commitment to support the AIM program would be entirely consistent with BCC's public benefit mission and the representations it made to the Department prior to licensure.

At the conclusion of the May 5 meeting, I indicated to the Board members present that I would like to see BCC submit to the Department, by May 19, 1994, a written commitment to spend not less than \$100 million during 1994. I understand that May 19 is less than two weeks away. I also understand that the Department has been pursuing this matter for more than two years.

I do not believe the minimum 1994 commitment I am seeking is unreasonable or would in any way undermine BCC's long-term viability. As I indicated at the meeting, BCC's ability to make this commitment is a matter of will on the part of the BCC Board, not a matter of the resources at BCC's disposal. While I think it may be appropriate for BCC to have some additional time to develop a long-term strategy to meet its public benefit obligations, I do not think it is appropriate, reasonable or necessary to wait until the long-term strategy is developed for BCC to acknowledge unequivocally its commitment to the public in this regard.

I am hopeful that the foregoing information is helpful during the course of the Board's deliberations. I believe that there still is an opportunity to successfully resolve this matter through the cooperative efforts of the Department and BCC. As I noted at the May 5 meeting, however, that window of opportunity is closing.

Very truly yours,



GARY S. MENDOZA
Commissioner of Corporations

GSM:ad

cc: Brian Donnelly